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SUBJECT: VENEZUELAN URBAN AND RURAL EXPROPRIATIONS CONTINUE
(PART 1 OF 2)

REF: A. CARACAS 00335

[1](#)B. CARACAS 00330

This message is sensitive but unclassified, please treat accordingly.

Summary

[1](#)1. (SBU) On March 6, President Chavez signed a Presidential Decree declaring a "housing emergency." The decree makes it easier to import construction materials and allows for further expropriations, stating only that they will occur "without violation of the law." The BRV has fallen short of promised housing construction goals (in 2004, it announced 120,000 homes would be built in 2005 - only 41,500 were built), and a weakened construction sector has further exacerbated the severe housing deficit. The government has waged a public campaign to vilify the private construction sector and is launching plans to urbanize de-populated areas and enact real estate price controls. Over the last few years, the BRV housing strategy of solely stimulating demand has largely failed -- leaving a large housing deficit impossible to cover with Venezuela's existing budget. The BRV is looking toward other countries, such as Cuba, Iran, and Uruguay, for imported materials and pre-built homes. The disjointed and improvised BRV position on housing has at times included expropriations at the municipal level and declarations against expropriations at the Ministerial level. (Septel updating rural expropriations). End summary.

Chavez Declares Urban Housing Emergency

[1](#)2. (SBU) On March 6, Chavez signed a Presidential Decree declaring a "housing emergency" in Venezuela - the third emergency decree in less than six months (the Ministry of Housing (MINVIH) issued one in Nov 2005, as did the Mayor of Caracas, Juan Barreto, in January 2006.) The decree allows for more construction material imports and further expropriations of urban land, vaguely explaining that they will take place "without violation of the existing expropriation law." The decree familiarly cites "natural climatological phenomena" (read: unusually heavy rains) over the past years as the reason for the crisis.

BRV fails to deliver housing solutions

13. (SBU) The urban housing shortage in Venezuela is not new. Though the BRV likes to blame the weather (in fairness, mudslides have wrecked a significant number of homes), many Venezuelans have been without adequate housing for over 25 years (Ref A). (Comment: blaming the weather is largely a tactic to divert attention away from the BRV's failure to deliver the homes it promised. End comment.) In 2004, the BRV vowed to build 120,000 homes by the end of 2005 -- it only built 41,500. The President of Venezuela's Construction Chamber, Alvaro Sucre, told EconOff that the BRV's number of "homes built" is inflated, as it counts remodeling and/or significant repairs as "newly built." For 2006, MINVIH promised to build 80,000 homes, though in his March 26 "Alo Presidente" speech Chavez nearly doubled the number to 150,000.

An Ailing Construction Sector

14. (SBU) Negative growth in the construction sector has intensified the housing crisis. According to the Venezuelan Workers' Confederation (CTV), over 50 percent of this sector is "paralyzed." In 1999, 2001 and 2003, the sector contracted by 17, 8 and 29 percent, respectively, and only saw minimal growth for 2000 and 2002 (4, 13 percent.) In 2004-2005 the sector bounced back, but not to pre-1999 levels, despite a strong correlation between oil windfall revenue and construction booms in Venezuela in the past. Import licenses are difficult to obtain, and prices for

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construction materials have nearly doubled thanks to inflation and increased demand.

15. (SBU) The Minister of Housing, Luis Figueroa, is finalizing details on a real estate price bracketing plan, which would set minimum and maximum prices for the sale of property in high-demand urban areas. The construction sector opposes the price-fixing measure, as previous BRV pricing blunders suggest the brackets will likely fail to cover a steep rise in material costs and the February 2006 minimum wage increase. According to Sucre, price bracketing will only deter investment and boost black market transactions (as happened with price controls in the past). Sucre mentioned that existing construction companies would be helped by public sector spending, but that new investment (in equipment or development projects) was at a standstill due to fears of expropriations and price controls.

16. (SBU) The BRV's strategy until now has focused on catalyzing demand by providing grants and low-interest loans to home buyers. Persons holding one of the approximately 2,600 "high risk area housing" certificates (for areas prone to mudslide risk) issued from Nov 2005-Jan 2006 obtain USD 8,000 (average) grants for new homes from the National Housing Council (CONAVI). For 2006, the Central Bank has announced that banks must set aside 10 percent of their loans for housing: 30 percent for home buyers and 70 percent for the construction sector. According to Sucre, in the last four years, 70 percent of housing construction has been financed by the BRV, while 30 percent has been through independent private sector funding.

Other BRV Housing "Solutions"

17. (SBU) Though Figueroa declared that BRV housing policy would not be "directed at invasions or expropriations," on February 24 Caracas Mayor Juan Barreto issued expropriation decrees for 32 residential buildings (in addition to the 13

decreed in Jan 2006). Barreto also decreed the additional expropriation of 63 single-owner residential buildings whose tenants have rented the properties for over 10 years. His justification for the expropriation was that the owners had been able to recover their original investment many times over and mandated that tenants would "negotiate" the property sale directly with the landlords. Sucre told EconOff that privately, the Minister of Housing disagreed with Barreto's approach, and believes expropriations are counter-productive. Sucre added that he speculated Barreto was getting the "ok" from higher-ups.

18. (SBU) Urban expropriations aren't just residential -- on February 12, Mayor Barreto expropriated a newly-constructed marketplace pavilion for use by informal vendors. Shortly thereafter, on March 6, the Tupamaros, a Chavista armed urban group, gave an ultimatum to a supermarket owner to vacate his store so that the facility could be used to set up a Mercal (government-funded supermarket) for the "good of the Venezuelan people." These residential and marketplace expropriations have not prompted waves of squatters, as was the case in January (see Ref A).

19. (SBU) On February 26, an official from Mayor Juan Barreto's office declared that "in XXI century socialism, housing is not a for-profit business." Interestingly, the 2005 Housing Law specifically called for the "substitution of the traditional private sector," implying that the BRV would now take on housing construction instead of private developers. Experts agree that the BRV has neither the managerial expertise nor the resources to replace the private sector and address the nation's 1.68 million unit housing deficit. (Note: on the optimistic assumption of a USD 35,000/unit investment, it would take USD 58.8 billion to overcome the deficit -- an amount well beyond the BRV's reach. Housing expenditures accounted for USD 2.4 billion in the USD 40.5 billion 2006 national budget. End Note.)

110. (SBU) In February 2006, MINVIH announced "Plan Caracas," a strategy to urbanize de-populated areas in the capital. The Plan identifies 380 hectares of available land for construction of 17,565 homes at a cost of nearly USD 940

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million, with final home prices ranging from USD 35,000-55,000 (Note: After subsidies and low-interest loans, this price range is feasible for middle-lower class Venezuelans. End Note.) According to MINVIH, 40 percent of the land identified in the plan is privately-owned, and the BRV hopes to negotiate with owners before resorting to expropriation (Note: for now, this doesn't include the golf courses Barreto threatened to expropriate in January 2006.) Figueroa also proposed taxing "idle properties" to nudge them into the market. Separately, Chavez himself has recently proposed allocating housing funds directly to the municipal level community councils (Septel).

Looking to Cuba, Iran, and Uruguay

111. (SBU) The Housing Minister announced on March 16 that the BRV would buy 1,500 metric tons of cement from Cuba, and traveled there March 17 to oversee the first shipment. In January 2006, the BRV announced plans to create a joint cement company with Iran and in Feb 2006 signed a 10,000 unit housing contract with them. Although Chavez announced that there is a cement shortage, according to a prominent economic contact, CEMEX Venezuela (a multinational cement company) is exporting 70 percent of its production for a lower price than it could sell it for in Venezuela in large part because they are facing payment delays from local buyers. After President Tavare Vasquez' official visit on March 14-15, Chavez also agreed to purchase 12,000 pre-fabricated Uruguayan mobile homes.

Comment

¶12. (SBU) Venezuela's housing deficit is huge - and closing the gap would require expenditures larger than the central government budget. Taking into account that even the most simple housing complexes take 1-1.5 years to complete, no amount of investment will deliver immediate results. The housing problem remains a thorn in the BRV's side, and blaming the private sector while pursuing a policy of direct BRV investment (awarding contracts, soft loans, etc), and selected expropriations has been the strategy so far. However, internal disagreement (between the Minister of Housing and the Mayor, for example) hints at a continuing uncoordinated and improvised urban expropriation policy. Even though expropriations and price controls deter badly-needed investment in the sector, the populist rewards of such policies are more important to Chavez than addressing the root of the housing problem itself. So far, most house-hunters blame private-sector "profiteers" for their woes. End Comment.
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